

REPORT ON EXAMINATION
OF THE
GREAT AMERICAN FIDELITY
INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

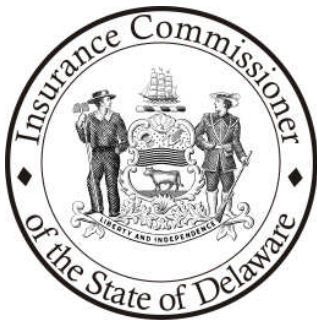
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

GREAT AMERICAN FIDELITY INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 16 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 16TH DAY OF JUNE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
GREAT AMERICAN FIDELITY INSURANCE COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is positioned above a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 16TH Day of JUNE 2008.

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SALUTATION

April 24, 2008

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners ("NAIC")
State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioners:

In compliance with your instructions and pursuant to statutory provisions contained in Certificate of Authority 07.034, dated May 2, 2007, an examination has been made of the affairs, financial condition and management of the

GREAT AMERICAN FIDELITY INSURANCE COMPANY

Hereinafter referred to as the "Company" or "GAFIC". The examination was conducted at the administrative office of the Company located at 580 Walnut Street, Cincinnati, Ohio 45202.

SCOPE OF EXAMINATION

Representatives of the Delaware Department of Insurance conducted the previous examination as of December 31, 2001. The current examination was conducted utilizing the National Association of Insurance Commissioners (NAIC) Risk Surveillance Methodology and covers the intervening period January 1, 2002 to December 31, 2006.

The “Risk Surveillance” approach, as outlined by the NAIC, seeks to identify residual risk relating to specific operational areas that are determined in part by the evaluation of design effectiveness and operating effectiveness of operating controls. Upon the determination of medium to high residual risk, additional examination procedures are performed to determine the monetary effect upon the Company’s financial statements. Having performed the examination under the “Risk Surveillance” approach, the Delaware examiner utilized the work performed by others with primary reliance on work performed by the Company’s external auditors, Ernst & Young LLP, and the Ohio Department of Insurance examination team relating to Investments and Treasury operation, Underwriting, Actuarial loss reserve review, Taxes and Information Technology review.

The examination also consisted of a general survey of the Company’s business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities as of December 31, 2006. Transactions subsequent to December 31, 2006 were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such matters, these issues were thoroughly discussed with responsible officials during the course of the examination. The general procedure of the examination followed the rules established by

the Committee of Financial Examiners Handbook, NAIC. Statements of Statutory Accounting Principles contained in the NAIC Accounting Practices and Procedures Manual as of March 2007 guided the conclusions reached.

In addition to the items included as part of this written report, the following items were reviewed but not commented upon.

Corporate Records
Fidelity Bond and Other Insurance
Statutory Deposits
Employees Welfare
Legal Actions Pending Settlement
Business in-Force by State
All Asset and Liability Items Not Commented Upon

The Company is a member of the Great American Insurance Company Pool. Members of the pool that were examined concurrently are as follows:

Great American Alliance Insurance Company	Ohio
Great American Assurance Company	Ohio
Great American Contemporary Insurance Company	Ohio
Great American E&S Insurance Company	Delaware
Great American Fidelity Insurance Company	Delaware
Great American Insurance Company	Ohio
Great American Insurance Company of New York	New York
Great American Protection Insurance Company	Ohio
Great American Security Insurance Company	Ohio
Great American Spirit Insurance Company	Ohio
Worldwide Casualty Insurance Company	Ohio

HISTORY

The Company was originally incorporated under the laws of the State of Delaware on January 12, 1982. The registered office of the Company is located at 1209 Orange Street, Wilmington, Delaware 19801. The registered agent, the CT Corporation, is located at the same address.

The Company is a member of a holding company system and is wholly owned by Great American Insurance Company (GAIC). The ultimate parent is American Financial Group, Inc. (AFG or the Group) a publicly traded company controlled by the Lindner family. Additional comments are included under the caption “Insurance Holding Company System”.

The amended Certificate of Incorporation authorizes 2,500 shares of common stock with no par value; however, there is a stipulation that capital may never be less than \$2,500,000. Stonewall Insurance Company owned the Company until March 31, 1991, when it was sold to American Empire Surplus Lines Insurance Company, an affiliate, for \$11,197,643. The Company was subsequently sold December 31, 1994, to the Great American Insurance Company for \$20,262,449. Effective October 17, 1995, the Company changed its name to American Dynasty Surplus Lines Insurance Company from Stonewall Surplus Lines Insurance Company. The current name was adopted on June 25, 2001. The name change was filed with the Secretary of State of Delaware on June 27, 2001.

CAPITALIZATION

The Articles of Incorporation were amended in 1992 to authorize the issuance of an additional 500 shares of the Company’s common stock. The amended Articles allow 2,500 shares of common stock with no par value to be issued. There were no contributions to the paid in capital and paid in surplus during the periods under examination. The amounts of Common Capital Stock and Gross Paid in and Contributed Surplus remained unchanged, therefore, at \$3,000,000 and \$11,550,000 respectively.

DIVIDENDS

The Company has paid the following amounts in dividends for the period under review.

<u>Year</u>	<u>Dividends</u>
2002	1,000,000

MANAGEMENT AND CONTROL

The Company's Certificate of Incorporation provides for the Company to be managed by a Board of Directors. Article II, Section 8 of the bylaws states that the Board of Directors shall consist of not fewer than four (4) members nor more than twelve (12). All directors shall be elected annually. Directors elected at the Consent of the Sole Shareholder on May 1, 2006 are as follows:

<u>Director</u>	<u>Principal Occupation</u>
Gary J. Gruber	Senior Vice President Great American Insurance Company
Karen Holley Horrell	Senior Vice President Executive Counsel and Secretary Great American Insurance Company
Donald D. Larson	Executive Vice President Great American Insurance Company
Robert E. Maly	Senior Vice President Great American Insurance Company
David J. Witzgall	Senior Vice President Chief Financial Officer Great American Insurance Company

In accordance with Article V, Section 1 of the Company's bylaws, the officers of the Company shall consist of a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer, one or more Secretaries, and such other Assistant Vice Presidents, Assistant Treasurers, or other officers as from time to time may appear to the Board of Directors necessary or desirable for the conduct of the affairs of the corporation. The same person may hold any two offices except that any person holding office as Secretary shall not hold the office of Chairman of the Board or President.

As of the examination date, the following officers were elected and serving in accordance with the Company's bylaws:

<u>Name</u>	<u>Title</u>
Donald D. Larson	Chairman and President
Karen Holley Horrell	Senior Vice President, Executive Counsel and Secretary
Eve Cutler Rosen	Senior Vice President, General Counsel and Assistant Secretary
Robert J. Schwartz	Vice President and Controller
John L. Doellman	Vice President and Actuary
David J. Witzgall	Senior Vice President, Chief Financial Officer and Treasurer
Allen F. Eling	Vice President
Thomas J. Hurley	Vice President
Kathleen J. Brown	Assistant Vice President
Annette D. Gardner	Assistant Vice President and Assistant Treasurer
Ronald C. Hayes	Assistant Vice President and Assistant Secretary
Thomas E. Mischell	Assistant Treasurer

Committees

The Company's bylaws provide for a Finance Committee and an Executive Committee whose members are to be appointed by the Board of Directors. The following members were duly appointed and serving as of December 31, 2006.

<u>Executive Committee</u>	<u>Finance Committee</u>
Karen Holley Horrell	Gary J. Gruber
Gary J. Gruber	David J. Witzgall
Donald D. Larson	Donald D. Larson

The Group has an established procedure for disclosure of any conflict of interest on the part of its directors and officers. A sample of the statements filed by directors and officers were reviewed to determine compliance with the procedure. No discrepancies were noted.

AGREEMENTS

Bonds and stocks of the Company are held under an agreement with the Bank of New York.

The Company maintains a reinsurance pooling agreement with certain affiliates. The effect of the pooling agreement is to transfer all direct insurance liabilities of the company and the other affiliates to Great American Insurance Company. The Great American Insurance Company retains 100% of the pooled business.

The Company is also a party to an agreement with American Money Management Corporation of Cincinnati, Ohio, an affiliate, which (subject to the direction and approval of the Finance Committee) provides management and accounting services related to investments on an incurred cost and expense basis.

Services also are provided between the Company and affiliates through a General Services Agreement with both insurance and non-insurance affiliates, for which costs are allocated on the basis of usage.

The Company also participates in an inter-company tax allocation agreement with American Financial Group, Inc. effective December 31, 2005.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business only in the State of Delaware in accordance with Certificate of Authority No 4061-P dated September 20, 2001. In all other states, the Company has complied with the applicable requirements for eligibility to write coverage on an excess or surplus lines basis as a non-admitted insurer. Excess and surplus lines coverages are offered to surplus lines brokers known as “wholesalers” who must be licensed in their own states if doing business with a non-admitted company. Agents who are appropriately licensed are the primary marketing source for these “wholesalers”.

The Company, along with other subsidiaries of its parent company, GAIC, participates in an inter-company reinsurance pooling agreement with GAIC. The effect of the pooling agreement is to transfer all direct liabilities of these subsidiaries to GAIC.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a holding company system and is currently wholly owned by Great American Insurance Company. The ultimate parent of the holding company system is American Financial Group, Inc., a diversified financial holding company. An organizational chart identifying the ultimate controlling person and key affiliated companies is displayed below.

American Financial Group, Inc.

American Money Management Corporation

APU Holding Company

American Premier Underwriters, Inc.

GAI Insurance Company, Ltd. (Bermuda)

Premier Lease & Loan Services Insurance Agency, Inc.

Republic Indemnity Company of America

Republic Indemnity Company of California

Great American Holding, Inc.

American Empire Surplus Lines Insurance Company

American Empire Insurance Company

Great American International Insurance Limited (Ireland)

Mid-Continent Casualty Company

Mid-Continent Insurance Company

Oklahoma Surety Company

Great American Insurance Company

Brothers Property Corporation

Crescent Centre Apartments

Eden Park Insurance Brokers, Inc.

El Aguila Compania de Seguros, S.A. de C.V. (Mexico)

FCIA Management Company, Inc.

GAI Warranty Company

GAI Warranty Company of Florida

Global Premier Finance Company

Great American Alliance Insurance Company

Great American Assurance Company

Great American Contemporary Insurance Company

Great American Custom Insurance Services Massachusetts, Inc.

Great American E&S Insurance Company

Great American Fidelity Insurance Company

Great American Insurance Company of New York

Great American Lloyd's Insurance Company

Great American Management Services, Inc.

Great American Protection Insurance Company

Great American Security Insurance Company

Great American Spirit Insurance Company

National Interstate Corporation

Hudson Indemnity, Ltd. (Cayman Islands)

National Interstate Insurance Company

National Interstate Insurance Company of Hawaii, Inc.

Triumpher Casualty Company

PennCentral U.K. Limited (United Kingdom)

Insurance (GB) Limited (United Kingdom)

PLLS Canada Insurance Brokers, Inc.

Professional Risk Brokers, Inc.

Professional Risk Brokers of Connecticut, Inc.

Worldwide Casualty Insurance Company

Great American Financial Resources, Inc.

AAG Holding Company, Inc.

Great American Life Insurance Company

Annuity Investors Life Insurance Company

Consolidated Financial Corporation

Great American Life Insurance Company of New York

Loyal American Holding Corporation

Loyal American Life Insurance Company

American Retirement Life Insurance Co.

Great American Life Assurance Company

Manhattan National Life Insurance Company

Old West Annuity & Life Insurance Company

United Teachers Associates, Ltd.

United Teachers Associates Insurance Company

Ceres Group, Inc.

Central Reserve Life Insurance Company

Provident American Life & Health Insurance Company

United Benefit Life Insurance Company

Continental General Corporation

Great American Advisors, Inc.

One East Fourth, Inc.

REINSURANCE

The Company maintains a reinsurance pooling agreement with certain affiliates. The effect of the pooling agreement is to transfer all direct insurance liabilities of the company and the other affiliates to Great American Insurance Company. The Great American Insurance

Company retains 100% of the pooled business. The Company has no other outside reinsurance agreements.

GROWTH OF THE COMPANY

The following information was extracted from office copies of the Company's filed annual statements for each year indicated.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2002	\$20,739,651	\$20,691,467	\$ -0-	\$ 970,680
2003	21,764,418	21,709,391	-0-	1,138,589
2004	22,821,912	22,644,193	-0-	916,962
2005	23,524,765	23,403,967	-0-	802,673
2006	24,091,726	24,089,116	-0-	637,917

ACCOUNTS AND RECORDS

All necessary accounting records of the Company are maintained on electronic data processing equipment. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for General Accepted Accounting Principles.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2006.

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

Assets
December 31, 2006

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$19,478,346	-0-	\$19,478,346
Stocks			
Preferred	1,145,750	-0-	1,145,750
Common	294,901	-0-	294,901
Cash	2,786,875	-0-	2,786,875
Federal and foreign income tax recoverable and interest thereon	701	-0-	701
Net deferred tax asset	132,879	-0-	132,879
Interest, dividends and real estate income due and accrued	252,274	-0-	252,274
TOTALS	<u>\$24,091,726</u>	<u>-0-</u>	<u>\$24,091,726</u>

Liabilities, Surplus and Other Liabilities
December 31, 2006

Losses	\$ -0-
Other expenses (excluding taxes, licenses and fees)	2,610
Total Liabilities	<u>\$ 2,610</u>
Common capital stock	\$ 3,000,000
Gross paid in and contributed surplus	11,550,000
Unassigned funds	<u>9,539,116</u>
Surplus as regards policyholders	<u>\$24,089,116</u>
Total	<u>\$24,091,726</u>

**Underwriting and Investment Exhibit
Statement of Income
2006**

Underwriting income

Premiums earned	\$ -0-
DEDUCTIONS	
Losses incurred	\$ -0-
Loss expenses incurred	
Other underwriting expenses incurred	
Total underwriting deductions	\$ -0-
Net underwriting gain	\$ -0-

Investment income

Net investment income earned	\$1,028,673
Net realized capital gains (losses)	(101,455)
Net investment gain (loss)	\$ 927,218

Other income

Net gain (loss) from agents balances charged off	\$ -0-
Aggregate write-ins for miscellaneous income	(2)
Total other income	\$ (2)
Net income before dividends to policyholders and federal income taxes	\$ 927,216
Dividends to policyholders	-0-
Net income, after dividends to policyholders but before federal and foreign income taxes	\$ 927,216
Federal and foreign income taxes	289,299
Net income	\$ 637,917

**Capital and Surplus Account
December 31, 2006**

Surplus as regards policyholders, December 31, prior year	\$23,403,967
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Net income	\$ 637,917
Net unrealized capital gains or (losses)	28,452
Change in deferred income taxes	18,780
Change in surplus regards policyholders for the year	\$ 685,149
Surplus as regards policyholders, December 31, current year	\$24,089,116

Schedule of Examination Changes

There were no changes made as a result of this examination.

CONCLUSION

As a result of this examination, the financial condition as of December 31, 2006 is as follows:

	<u>2001</u>	<u>2006</u>	<u>Difference</u>
Admitted Assets	<u>\$22,883,359</u>	<u>\$24,091,726</u>	<u>\$ 1,208,367</u>
Liabilities	<u>\$ 2,481,048</u>	<u>\$ 2,610</u>	<u>(\$2,478,438)</u>
Surplus as regards policyholders	<u>20,402,310</u>	<u>24,089,116</u>	<u>3,686,806</u>
Totals	<u>\$22,883,359</u>	<u>\$24,091,726</u>	<u>\$ 1,208,367</u>

ACKNOWLEDGMENT

Appreciation is extended for the assistance extended by the Company's officers and employees during the course of this examination. Appreciation is also extended to the examination team members of the Ohio Department of Insurance whose examination work was relied upon for specific Company operational areas reviewed.

Paul Ellis, CPA

Paul E. Ellis, CFE
Examiner In Charge
State of Delaware